

AMERICAN TRADE POLICY IN KOREA 1993-2001: ITS RECORD, ITS LESSONS AND THE ROAD AHEAD

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Good afternoon. Let me thank the Institute and President Winder for bringing us together today.

We have just a few days before the Presidential transition – but for Asian trade policy, they will be busy days, as we discuss resumed negotiations toward a Free Trade Agreement with Singapore, continue multilateral discussions on China's WTO accession in Geneva, consult with Congress on the implementation of our bilateral trade agreement with Vietnam, and more. But as we continue to work on these specific goals, a moment of transition is always an opportunity to step back and take a fresh look at our policies as a whole.

We may find it especially valuable to do so in Asia, for two reasons. First, of course, many of the regional priorities we set in the early 1990s are now embodied in policy and agreements. Second, the landscape in Asia is greatly changed – economically, politically, even psychologically. So it is an appropriate time to look at Asian policies as a whole – and the Korean case is an especially important example – by virtue not only of the size of our trade relationship in its own right, but because it illuminates the shifting challenges of Asian trade policy more generally.

AMERICAN PACIFIC STRATEGY: THE KOREAN CASE

Any Administration's Asian policies, must begin with the permanent realities; and these are clear: we are a Pacific nation, and we have a vital interest in the region's stability, prosperity and security. These facts have been at the foundation of the Clinton Administration's Asia policies, and America's approach to the Pacific region throughout the postwar era. And we see the resulting policies with special clarity in Korea:

- Commitment to peace and security: embodied in our Security Treaty, our 50-year military presence on the Korean peninsula, and our cooperation today in engagement with North Korea;
- Principled support for the values of human rights, freedom and the rule of law: concepts whose

relevance to the questions of prosperity and political stability President Kim expressed so eloquently in his Nobel Prize lecture, discussing the complementarity between classical Asian political thought and modern democratic practices; and

- Our belief in the shared benefits of prosperity and development: evident in the open market policies at home, which make us South Korea's largest export market; in our support for Korea and other Asian nations during the financial crisis; and also in our commitment to a reformed, more open, and more competitive South Korean market.

The compatibility of our interests with those of Asia is nowhere more clear than in South Korea. In an atmosphere of Asian nationalism and mercantilist rivalry, all suffer: and the occupation, war and partition Korea endured in the first half of the 20th century shows this all too painfully. But in a healthier environment – in which regional political stability, domestic democratization and opening and reformed markets begin to reinforce one another – all benefit. And this is the lesson of the more recent Korean experience.

History has seen rarely such a rapid transformation, as a nation still recovering from conflict in the 1960s became one of the world's industrial leaders by the 1980s. Statistics of growth and development may describe this accurately; but the era is perhaps better captured by the things one can see and touch: hotels and office buildings were beginning to cast shadows on the slopes of Namsan Peak; the White House had bought a Daewoo combine to mow the South Lawn. the power of Korea's heavy industry was matched by the beginnings of a New Economy sector, symbolized by the Seoul artists contracting as animators for *The Simpsons*.

THE CHALLENGES OF 1993

But success brings its own challenges; and this was evident as the Clinton Administration took office in 1993.

Asia had emerged – after decades of rapid growth, and with the advantage of the security and opening markets historic American policies had helped provide – as an industrial power and a shaper of the world economy. And Japan, as the most successful Asian economy, provided its neighbors with an alternative model of development, symbolized by the phrase “geese flying in formation” often used to describe Asia's industrialization: guided investment, export targets and resistance to imports, with the assumption of a permanently open American market.

This raised questions within the United States about America's trade relationship with Asia. Concerns about trade practices and closed markets across the Pacific had grown throughout the 1980s. And as the 1990s began, these were joined by the concerns about America's long-term ability to compete, which had their roots in the recession and persistent budget deficits of the era.

And the political shifts underway throughout the Pacific greatly magnified the importance of all these questions. The end of the Cold War, in removing sources of tension and ideological conflict among the great powers, also eroded assumptions at the foundations of regional diplomacy for decades. And this affected not only security but trade – as a simple, or simplistic, domestic rationale for America’s open market policy had been the strengthening of our allies.

THE CLINTON ADMINISTRATION AND ITS RECORD

And so, as we preserved the foundations of Asian policy, we had to rethink our approach to fit a new world: one in which Asian governments expected a greater role in shaping the trading system; one in which Americans raised growing questions about our open-market policies and expected more from our trading partners; one in which, therefore, we and all Pacific nations would have to work together to find new sources of political cohesion.

Against this background, President Clinton invited the APEC leaders to the initial summit in 1993; and the vision he presented to them took account of these converging trends to present a new and coherent strategy for the future. This was the concept of "Pacific Community," in which as we maintained our traditional military presence and updated our alliances, we redoubled efforts to open Asian markets, in large part through economic dialogue with Asian governments.

The goal, over time, was a regional framework of open trade and investment, which would help reduce the possibility of trade conflict and political tension in the aftermath of the Cold War. This would be to the benefit of all: for South Korea, it would transform a geographic position – at the point where China, Japan, and Russia meet – from a source of vulnerability and suffering to one of extraordinary economic advantage. And each element of our trade agenda has sought to bring this vision closer to reality.

- We reformed our own trade regime: eliminating tariffs on 2000 types of products, phasing out quotas, further liberalizing some of our leading services industries, and more.
- We sought, through the WTO, to strengthen the global trading system, open markets and adapt trade policy to the information age. With our completion of the Uruguay Round in 1994, and the more recent multilateral agreements on Information Technology, Financial Services, Basic Telecommunications and duty-free cyberspace, we did so. And perhaps more important, in so doing we strengthened the disciplines that kept world markets open during the financial crisis, giving affected countries like Korea ample space for recovery.
- And we pursued an aggressive Asian trade agenda, ranging from the broad commitment through APEC to “free and open trade” throughout the region; to our program of market-opening and deregulation in Japan, marked by 39 separate agreements and an innovative Enhanced Initiative on Deregulation and Competition Policy; a new trade dialogue with India;

agreements normalizing trade with Vietnam, Cambodia and Laos; the historic agreement on China's accession to the World Trade Organization and the passage of PNTR last fall; and of course 13 bilateral trade agreements with South Korea.

Eight years later, we can take some satisfaction in our progress, but also recognize that it is not complete. And in both regards, the Korean case is an especially important example.

THE U.S.-KOREAN TRADE RELATIONSHIP TODAY

In Korea, we encountered a large and important trade relationship, but one also marred by intractable disputes. The “National Trade Estimate” report we publish each year, laying out our agenda with our major trading partners, is an index to both the promise and the difficulties in this relationship: the Korea section, at about 20 pages a year, is shorter only than those covering Japan and the European Union.

Our response has included on one hand the series of bilateral agreements, intended to open markets and solve some of our most pressing disputes. The first of these – on government procurement in telecommunications, signed in March of 1993 – was in fact the first market-opening agreement of the Clinton Administration; and we have kept at it ever since.

At the same time, we developed a very strong and cooperative relationship in many other fields. We inaugurated a Subcabinet economic dialogue with Korea, and worked closely with the Korean government – ably represented by Minister Han Duck-soo – in the Uruguay Round, in APEC, and in our strong support for Korea’s successful effort to join the OECD. We have found common interests in adapting the trading system to the high-tech economy – beginning with Korea's decision to join the U.S.-Japan Semiconductor Agreement and the WTO's Information Technology Agreement; then in the negotiation of multilateral agreements between 1997 and 1999 on financial services, basic telecommunications and duty-free cyberspace; and most recently in the launch of our Networked World initiative, intended to bring the WTO into the 21st century, and in which Korea has a strong interest. And the trade policy has proceeded in tandem, of course, with the reform programs adopted under President Kim Young-sam and then built upon under President Kim Dae-jung.

All of this has contributed to the liberalization of the South Korean economy; and so today we see a Korean market that is more open than it was eight years ago, and a trade relationship that is larger and in many ways healthier. Korean tariffs on average have dropped by half, and vanished on semiconductors, computers, and other information technology goods. Korea has eliminated a number of non-tariff trade barriers in both agriculture and industrial goods. It has begun, though slowly, to come into conformity with OECD practices in services and government procurement. And our trade relationship shows the effects.

In total, it has more doubled over eight years, from \$37 billion in 1992 to more than \$80 billion

in 2000, becoming among the largest and most diversified relationships in the world today; and the growth is especially clear today, as exports in both directions set records last year.

Today, over a fifth of Korea's exports – more than in 1993 – go to the United States; and Korea is not only a major trading partner overall, but our largest source of specific products from integrated circuits to Bibles, oysters and electric guitars. Likewise, Korea is a larger market for the United States than such major trading partners as France or Brazil, buying \$5 billion worth of semiconductors, nearly 150 civil aircraft and 120 million kilos of beef last year.

CURRENT DISPUTES

Altogether, in many ways, the program President Clinton set for Asia in 1993 – a sustained security commitment, more open markets, a closer economic relationship – has been realized in South Korea. But as we note these successes, we must admit that our trade relationship with South Korea remains in some important ways troubled.

In some areas, this reflects familiar disputes – and the auto industry is an example. While we have removed some of the most glaring barriers through our 1998 agreement, South Korea's market remains largely closed. This year, about 500,000 cars will arrive in the United States from Korea; the United States will export perhaps 1,500 to Korea. To put it another way, the U.S. seems likely to export more golf carts than cars to Korea this year. This reflects high formal trade barriers, high taxes in areas where imports are most competitive, and perceptions fostered through past anti-import campaigns – begun by the government – that are intended to keep the market closed and avoid competition. As these block imports – and the potential market, judging by the half million Koreans who came to last spring's international auto show, is very high – they also work against efforts to restructure and rationalize Korea's industrial economy.

Intellectual property is a similar case. We have serious concerns, ranging from market access (e.g. for films) to weak laws or enforcement in many different sectors – computer software, books, pharmaceuticals are all examples. And one could proceed to government involvement in the steel industry, agricultural trade barriers, telecommunications or other topics. All are issues with substantial commercial consequences. We are pursuing our rights and interests in them vigorously, and I am confident the new Administration will do so as well.

THE FINANCIAL CRISIS AND ITS IMPLICATIONS

But as we address these specific concerns, a new set of questions has arisen. And these, of course, stem from the financial crisis.

The debate over the cause of the financial crisis, and all the extraordinary suffering it brought to Korea, will continue for years. But among its causes were clearly the adoption by Korea of what was

viewed as the Japanese development model of the 1970s and 1980s: a series of industrial policies involving import restrictions, subsidies, and export promotion, in which the government became a silent partner of most leading Korean businesses. These, while bringing a long era of growth, also left a weak financial system, and an overextended, highly indebted industrial sector.

One can only regard the response of South Korean society to the crisis with admiration – from the families donating gold in 1997 and 1998, to the reform program President Kim has undertaken over the past two years. This is the right path: as President Kim's recent New Year's address notes, to complete the recovery and to succeed in the new century, Korea must move still more rapidly toward an economy in which properly functioning markets help raise family living standards; and in which openness to the outside world and restructured domestic markets allow investment to flow naturally, rather than being forced into overbuilt industries.

Obviously these are very difficult challenges. Korea has made a promising beginning in many fields: growing openness to foreign investment, labor market flexibility, development of a centralized system for prudential oversight of the financial sector. But this is only part of the story. The move away from an opaque, centrally controlled financial system toward one which is market-based and open to the world remains incomplete. Corporate restructuring remains essential in major manufacturing industries, and reform is only partial in other fields as well.

And as the emergency presented by the financial crisis fades, and the initial recovery of the Korean economy slows, reform clearly becomes more difficult. We see this not only in the general public anxiety in Korea, but also in the re-emergence of older patterns of behavior – for example, the subsidization of key industries, as we see in the recent press coverage of the semiconductor industry, as well as in the steel and automotive sectors.

THE CURRENT CHALLENGE

So today, we have reached a turning point with some curious parallels to that President Clinton met as he took office in 1993.

The questions Koreans – and many of Korea's Asian neighbors as well – are asking today are much like those Americans asked eight years ago, although in the aftermath of a far more difficult and traumatic experience: What is the source of our difficulties? Will we solve them by turning inward, or by opening to the world?

And just as the answers we reached then helped decide the shape of the Pacific today – China's integration into the WTO and PNTR; normalization with Indochina; the growing trade relationship with Korea as well – the answers Asians reach today, with the American response, will likewise shape the Pacific of the coming years.

In this context, we see a remarkable degree of economic policy activity underway throughout Asia. Korea's domestic reforms have a clear parallel in the ASEAN+3 meetings, joining China, Japan, Korea and ASEAN in discussion of potential regional trade or financial policies; in the trade agreements South Korea is considering with Japan, Chile, Singapore, New Zealand, Australia, Thailand and other partners; and also in Japan's new interest in at least partial free trade agreements, and China's proposal of an eventual China-ASEAN Free Trade Area. And these initiatives merit careful study.

A set of agreements that exclude particular countries or work against the APEC Leaders' commitment at Bogor to open trade in the Pacific region as a whole ; that exempt particular sectors (as, for example, Japan appears to be attempting to exclude agriculture, fisheries and forestry); or that are trade-diverting rather than trade-expanding, would be of grave concern.

But a set of trade agreements – of high quality, comprehensive and fully WTO-consistent; open to new members rather than seeking to exclude outsiders; and conceived with the Bogor commitment, the APEC vision, and Pacific Community in mind – can also lead us over time to a genuine and lasting structure of open trade in the Asia-Pacific region. This is the intent behind of our most recent Asian trade initiative, the prospective U.S.-Singapore Free Trade Agreement. Its completion and ultimate expansion, together with similar agreements in the region, can be the cornerstone of the Pacific community envisioned by President Clinton and embodied in the Bogor Declaration.

CONCLUSION

Thus we work toward an integrated region, in which businesses and farmers find new opportunities, families improve their living standards, and nations find the common ground that can strengthen peace. And this brings us back to the point at which we began, with the moment of Presidential transition and the choices it presents.

America's fundamental interests in Asia, at this moment of transition, remain simple and clear. The basic commitments we have made in their pursuit – to open markets, to human rights and the rule of law, to peace and security – remain the right approach for Americans and Koreans alike. And the goals we seek to achieve are in sight.

All of this we pass on to the new Administration with satisfaction in the work of the past eight years, with good will, and with confidence in the future.

Thank you very much.